

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

**Current Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934**

Date of Report (date of earliest event reported): **March 1, 2018**

CALIFORNIA WATER SERVICE GROUP

(Exact name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction
of incorporation)

1-13883
(Commission file number)

77-0448994
(I.R.S. Employer
Identification Number)

1720 North First Street
San Jose, California
(Address of principal executive offices)

95112
(Zip Code)

(408) 367-8200
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition

On March 1, 2018, California Water Service Group (the "Company") issued a press release (a copy of which is attached hereto as Exhibit 99.1 and incorporated herein by reference) announcing its financial results for the fourth quarter and year-end of 2017, ended December 31, 2017. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference herein.

As announced, the Company will host a conference call on Thursday, March 1, 2018 at 11:00 am EST to discuss financial results and management's business outlook. The financial results announcement contains information about how to access the conference call. A slide presentation, which includes supplemental information relating to the Company, will be used by management during the conference call. A copy of the slide presentation is attached hereto as Exhibit 99.2 and is incorporated by reference herein. The Exhibits will be posted on the Company's website at www.calwatergroup.com under the "Investor Relations" tab.

The information furnished pursuant to Item 2.02 of this Current Report shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 7.01. Regulation FD Disclosure.

The information included in the Exhibits to this report is incorporated by reference in response to this Item 7.01.

The information furnished pursuant to Item 7.01 of this Current Report shall not be deemed "filed" for the purposes of Section 18 of the Exchange Act, or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits.

We hereby furnish the following exhibits, which shall not be deemed "filed" for the purposes of Section 18 of the Exchange Act, with this report:

Exhibit No.	Description
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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CALIFORNIA WATER SERVICE GROUP

Date: March 1, 2018

By: /s/ Thomas F. Smegal
Name: Thomas F. Smegal
Title: Vice President, Chief Financial Officer and Treasurer



NEWS RELEASE

CALIFORNIA WATER SERVICE GROUP



1720 North First Street
San Jose, CA 95112-4598

March 1, 2018
for immediate release

Contact: Tom Smegal (408) 367-8200 (analysts)
Shannon Dean (408) 367-8243 (media)

**CALIFORNIA WATER SERVICE GROUP ANNOUNCES
2017 EARNINGS FOR YEAR AND FOURTH QUARTER**

SAN JOSE, CA — California Water Service Group (Company) (NYSE: CWT) today announced net income of \$67.2 million and diluted earnings per share of \$1.40 for 2017, compared to net income of \$48.7 million and diluted earnings per share of \$1.01 in 2016.

The \$18.5 million increase in net income was primarily the result of rate changes authorized in California Water Service Company's (Cal Water's) 2015 General Rate Case (GRC) decision. Net income also increased due to the adoption of allowance for equity funds used during construction (equity AFUDC) in 2017, an increase in accrued unbilled revenue, an increase in unrealized gains on certain benefit insurance investments, and decreases in incremental drought, other operations, and maintenance expenses over the same period last year. These factors were partially offset by increases in administrative and general, depreciation and amortization, and interest expenses.

According to President and Chief Executive Officer Martin A. Kropelnicki, a number of factors aligned for the Company in 2017, including the effect of the 2015 California GRC decision, execution of the Company's program to renew critical infrastructure, and a transition out of California's recent drought.

"I am proud of the work our team did operating efficiently and providing top-notch service to our customers. We invested a record \$259.2 million to maintain and improve our water systems to fulfill our promise to provide customers with quality, service, and value, and won \$56.0 million of litigation proceeds to reimburse a portion of the costs associated with the Company's compliance with the new water quality standard for 1,2,3-Trichloropropane (TCP), which will reduce the rate impact to customers," he said.

Looking ahead to 2018, the Company expects some challenges as the California Public Utilities Commission prepares to issue a final decision on the Cal Water Cost of Capital filing and we begin the process of implementing customer rates, which reflect the changes to federal tax laws that became effective in December 2017.

"The Proposed Decision in the Cost of Capital filing fails to strike the right balance between protecting the interests of ratepayers, stockholders, and the continuing need to replace critical water infrastructure. If adopted, it will harm both customers and stockholders by hindering our ability to make critical and necessary improvements to our water systems. Our main focus now is participating in the regulatory process to advocate for fair and reasonable decisions on the cost of capital proceeding and implementation of new federal tax law, both of which could have a significant impact on our earnings and cash flows," Kropelnicki said.

Additional Financial Results for 2017

Total revenue increased 9.4% to \$666.9 million in 2017 compared to \$609.4 million in 2016, primarily due to rate increases. Rate increases added \$54.9 million, \$10.7 million of which was related to increased water costs. Accrued unbilled revenue added \$2.5 million.

Total operating expenses increased \$39.1 million, or 7.3%, to \$572.3 million in 2017 compared to the prior year.

Water production expenses increased \$21.9 million, or 9.9%, to \$241.9 million in 2017, primarily due to increases in purchased water quantities and higher wholesale water rates. As designed, the California revenue decoupling mechanisms record an increase to revenue equal to the increase in California water production costs.

Administrative and general and other operations expenses decreased \$1.2 million to \$177.4 million in 2017, primarily due to decreases in incremental drought and other conservation program expenses, a decrease in costs associated with the deferral of operating revenue, and reduced expensing of previously capitalized items through regulatory action in 2017 as compared to 2016. These decreases were partially offset by employee wage and benefit cost increases and uninsured loss cost increases. Changes in employee pension benefits, employee and retiree medical costs, and water conservation program costs for regulated California operations generally do not affect earnings, as Cal Water is allowed by the CPUC to record these costs in balancing accounts for future recovery, creating a corresponding change to revenue.

Maintenance expenses decreased \$0.5 million, or 2.0%, to \$22.5 million in 2017, due to decreased costs for repairs of transmission and distribution mains and services.

Income taxes increased \$4.1 million, or 16.6%, to \$28.9 million in 2017, due to an increase in operating income which was partially offset by an increase in the tax benefit from the flow through method of accounting for "repairs" deductions on state corporate income tax filings. The Company's current estimated effective combined income tax rate for 2018 is 24%, which reflects the change in the federal corporate income tax rate from 35% to 21% beginning on January 1, 2018.

Other income, net of income taxes, increased \$3.5 million in 2017, due primarily to the implementation of equity AFUDC in 2017 and an increase in unrealized gains on certain benefit plan investments.

Fourth Quarter 2017 Results

For the fourth quarter of 2017, net income decreased \$1.4 million, or 9.4%, to \$13.7 million, and diluted earnings per share decreased \$0.02, or 6.5%, to \$0.29 per diluted share compared to the fourth quarter of 2016. The decrease in net income was due primarily to increases in administrative and general, depreciation and amortization, and interest expenses. The decrease was partially offset by 2017 rate changes authorized in the December 2016 California GRC decision.

Revenue for the fourth quarter increased \$11.1 million, or 7.3%, to \$162.0 million mostly due to rate increases. Total operating expenses for the quarter increased \$12.3 million, or 9.5%, to \$141.9 million. Water production expenses increased \$9.2 million mostly due to increases in purchased water quantities and wholesale water rates.

Administrative and general and other operations expenses increased \$2.0 million, or 4.4%, to \$47.8 million mostly due to the recovery in 2016 of incremental drought costs of \$2.9 million for the years 2015 and 2014, an increase in employee wage and benefit costs, and uninsured loss cost increases. These increases were partially offset by a decrease in conservation program costs in 2017 and a decrease in costs associated with the recognition of operating revenue that was deferred in prior years. Maintenance expense increased \$0.2 million, or 3.7%, to \$5.7 million. Other income, net of income taxes, increased \$0.6 million, or 34.6%, to \$2.2 million mostly due to the equity AFUDC. Net interest expense increased \$0.8 million, or 9.7%, to \$8.6 million.

The under-collected net receivable balance in the Water Revenue Adjustment Mechanism and Modified Cost Balancing Accounts (WRAM and MCBA) was \$69.1 million as of December 31, 2017, an increase of 86.2%, or \$32.0 million, from the balance of \$37.1 million as of December 31, 2016. Cal Water has a Sales Reconciliation Mechanism (SRM) in place for the second and third years of a GRC that allows it to adjust the adopted sales forecast if actual sales vary from adopted sales by more than 5.0% in the prior year.

Regulatory Update

As a part of the 2015 GRC decision, Cal Water was authorized to request annual escalation rate increases for 2018 for those districts that passed an earnings test. In November of 2017, Cal Water requested escalation rate increases in all of its regulated districts. The annual adopted gross revenue associated with the November 2017 filing was \$15.9 million. The new rates became effective on January 1, 2018.

On February 6, 2018, the CPUC issued a proposed decision on Cal Water's cost of capital filings authorized return of equity for 2018 through 2020 by the assigned administrative law judge. The proposed decision would lower Cal Water's authorized return on equity from 9.43% to 8.22%. If the proposed decision were adopted without changes, Cal Water would be required to reduce its rates collected from California customers by approximately \$13.0 million. This reduction in revenue would reduce Cal Water's net income and cash flows from operations beginning in 2018. A proposed decision must be approved by the full Commission to go into effect. The Commission could modify or reject the proposed decision and will first consider the matter at its meeting on March 22, 2018.

On December 20, 2017, Cal Water entered into a settlement agreement and release of claims for TCP contamination with the potentially responsible parties (PRP). The proceeds from the settlement, after payment of legal fees, was \$56.0 million and will be used to reimburse a portion of the costs associated with Cal Water's remediation efforts related to such alleged TCP contamination. Under the terms of the Agreement, the PRPs are released from all claims regarding 47 of the 57 total claimed wells, and Cal Water agrees to file a dismissal with prejudice of the lawsuit. The PRPs are also released from future claims regarding TCP contamination of any other wells, unless and until Cal Water has installed granular activated carbon filtration systems or other then-approved State treatment technology for TCP on, or replaced, 36 wells due to TCP contamination.

On December 22, 2017, the CPUC sent a letter to all Class A and B water and sewer utilities, which include Cal Water, on the subject of "Changes in Federal Tax Rates for 2018." The CPUC required Cal Water to establish a tax accounting memorandum account (TAMA) to track the impact of the changes to federal tax law. The TAMA will track the revenue requirement impact of the changes to federal tax law not otherwise reflected in rates from January 1, 2018 until the effective date of the revenue requirement changes adopted in Cal Water's next GRC. The Hawaii, Washington, and New Mexico commissions have similar requirements to track the impact of the changes to federal tax law.

Other Information

All stockholders and interested investors are invited to listen to the 2017 year-end and fourth quarter conference call on March 1, 2018 at 8:00 a.m. PST (11:00 a.m. EST) by dialing 1-833-832-5130 or 1-509-844-0151 and keying in ID #6675698. A replay of the call will be available from 11:00 a.m. PST (2:00 p.m. EST) on March 1, 2018 through May 1, 2018, at 1-855-859-2056 or 1-404-537-3406, ID #6675698. The replay will also be available under the investor relations tab at www.calwatergroup.com. Prior to the call, the Company will post a slide presentation on its website. The presentation can be found at www.calwatergroup.com/docs/2017q4slides.pdf after 6:00 a.m. PDT. The call will be hosted by President and Chief Executive Officer Martin A. Kropelnicki, Vice President and Chief Financial Officer Thomas F. Smegal III, Vice President of Rates and Regulatory Matters Paul G. Townsley, and Vice President and Corporate Controller David B. Healey.

California Water Service Group is the parent company of California Water Service, Washington Water Service, New Mexico Water Service, Hawaii Water Service, CWS Utility Services, and HWS Utility Services. Together, these companies provide regulated and non-regulated water service to nearly 2 million people in California, Washington, New Mexico, and Hawaii. California Water Service Group's common stock trades on the New York Stock Exchange under the symbol "CWT." Additional information is available online at www.calwatergroup.com.

This news release contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 ("Act"). The forward-looking statements are intended to qualify under provisions of the federal securities laws for "safe harbor" treatment established by the Act. Forward-looking statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about the Company, the water utility industry and general economic conditions. Such words as would, expects, intends, plans, believes, estimates, assumes, anticipates, projects, predicts, forecasts or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are subject to uncertainty and changes in circumstances. Actual results may vary materially from what is contained in a forward-looking statement. Factors that may cause a result different than expected or anticipated include, but are not limited to: governmental and regulatory commissions' decisions; consequences of eminent domain actions relating to our water systems; changes in regulatory commissions' policies and procedures; the timeliness of regulatory commissions' actions concerning rate relief; inability to renew leases to operate city water systems on beneficial terms; changes in California State Water Resources Control Board water quality standards; changes in environmental compliance and water quality requirements; electric power interruptions; changes in customer water use patterns and the effects of conservation; the impact of weather and climate on water availability, water sales and operating results; the unknown impact of contagious diseases, on the Company's operations; civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type; labor relations matters as we negotiate with the unions; restrictive covenants in or changes to the credit ratings on our current or future debt that could increase our financing costs or affect our ability to borrow, make payments on debt or pay dividends; and, other risks and unforeseen events. When considering forward-looking statements, you should keep in mind the cautionary statements included in this paragraph, as well as the annual 10-K, Quarterly 10-Q, and other reports filed from time-to-time with the Securities and Exchange Commission. The Company assumes no obligation to provide public updates of forward-looking statements.

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited

(In thousands, except per share data)	December 31, 2017	December 31, 2016
ASSETS		
Utility plant:		
Utility plant	\$ 2,970,179	\$ 2,717,339
Less accumulated depreciation and amortization	(922,214)	(858,062)
Net utility plant	<u>2,047,965</u>	<u>1,859,277</u>
Current assets:		
Cash and cash equivalents	94,776	25,492
Receivables: net of allowance for doubtful accounts of \$773 for 2017 and \$830 for 2016		
Customers	32,451	30,305
Regulatory balancing accounts	36,783	30,332
Other	16,464	17,158
Unbilled revenue	29,756	25,228
Materials and supplies at weighted average cost	6,463	6,292
Taxes, prepaid expenses, and other assets	11,180	7,262
Total current assets	<u>227,873</u>	<u>142,069</u>
Other assets:		
Regulatory assets	401,147	355,930
Goodwill	2,615	2,615
Other	60,775	51,854
Total other assets	<u>464,537</u>	<u>410,399</u>
TOTAL ASSETS	<u>\$ 2,740,375</u>	<u>\$ 2,411,745</u>
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$.01 par value	\$ 480	\$ 480
Additional paid-in capital	336,229	334,856
Retained earnings	356,753	324,135
Total common stockholders' equity	693,462	659,471
Long-term debt, less current maturities	515,793	531,745
Total capitalization	<u>1,209,255</u>	<u>1,191,216</u>
Current liabilities:		
Current maturities of long-term debt	15,920	26,208
Short-term borrowings	275,100	97,100
Accounts payable	93,955	77,813
Regulatory balancing accounts	59,303	4,759
Accrued interest	6,122	5,661
Accrued expenses and other liabilities	40,559	38,689
Total current liabilities	<u>490,959</u>	<u>250,230</u>
Unamortized investment tax credits	1,724	1,798
Deferred income taxes	192,946	298,924
Pension and post-retirement benefits other than pensions	252,141	222,691
Regulatory and other liabilities	224,127	83,648
Advances for construction	182,502	182,448
Contributions in aid of construction	186,721	180,790
Commitments and contingencies		
TOTAL CAPITALIZATION AND LIABILITIES	<u>\$ 2,740,375</u>	<u>\$ 2,411,745</u>

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Unaudited
(In thousands, except per share data)

For the Three-Months ended:	December 31, 2017	December 31, 2016
Operating revenue	\$ 161,991	\$ 150,930
Operating expenses:		
Operations:		
Water production costs	60,407	51,160
Administrative and General	28,983	23,437
Other operations	18,788	22,316
Maintenance	5,653	5,451
Depreciation and amortization	19,133	15,827
Income taxes	2,829	5,612
Property and other taxes	6,080	5,792
Total operating expenses	<u>141,873</u>	<u>129,595</u>

Net operating income	20,118	21,335
Other income and expenses:		
Non-regulated revenue	5,155	5,996
Non-regulated expenses	(2,483)	(3,285)
Allowance for equity funds used during construction	987	—
Income tax expense on other income and expenses	(1,488)	(1,098)
Net other income	2,171	1,613
Interest expense:		
Interest expense	9,215	8,482
Allowance for borrowed funds used during construction	(595)	(624)
Net interest expense	8,620	7,858
Net income	\$ 13,669	\$ 15,090
Earnings per share		
Basic	\$ 0.29	\$ 0.31
Diluted	\$ 0.29	\$ 0.31
Weighted average shares outstanding		
Basic	48,014	47,966
Diluted	48,014	47,969
Dividends per share of common stock	\$ 0.1800	\$ 0.1725

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited
(In thousands, except per share data)

For the Twelve-Months ended:	December 31, 2017	December 31, 2016
Operating revenue	\$ 666,890	\$ 609,370
Operating expenses:		
Operations:		
Water production costs	241,867	219,993
Administrative and General	102,914	98,474
Other operations	74,448	80,082
Maintenance	22,530	22,993
Depreciation and amortization	76,783	63,599
Income taxes	28,928	24,804
Property and other taxes	24,797	23,231
Total operating expenses	572,267	533,176
Net operating income	94,623	76,194
Other income and expenses:		
Non-regulated revenue	15,898	16,585
Non-regulated expenses	(8,727)	(11,591)
Allowance for equity funds used during construction	3,750	—
Income tax expense on other income and expenses	(4,435)	(2,012)
Net other income	6,486	2,982
Interest expense:		
Interest expense	36,288	33,466
Allowance for borrowed funds used during construction	(2,360)	(2,965)
Net interest expense	33,928	30,501
Net income	\$ 67,181	\$ 48,675
Earnings per share		
Basic	\$ 1.40	\$ 1.02
Diluted	\$ 1.40	\$ 1.01
Weighted average shares outstanding		
Basic	48,009	47,953
Diluted	48,009	47,956
Dividends per share of common stock	\$ 0.7200	\$ 0.6900



Forward-Looking Statements

This presentation contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 ("Act"). The forward-looking statements are intended to qualify under provisions of the federal securities laws for "safe harbor" treatment established by the Act. Forward-looking statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment.

Words such as would, expects, intends, plans, believes, estimates, assumes, anticipates, projects, predicts, forecasts or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are subject to uncertainty and changes in circumstances. Actual results may vary materially from what is contained in a forward-looking statement.

Factors that may cause a result different than expected or anticipated include, but are not limited to: governmental and regulatory commissions' decisions; changes in regulatory commissions' policies and procedures; the timeliness of regulatory commissions' actions concerning rate relief; changes in tax laws, the interpretation of tax laws, and accounting policies; changes in construction costs and availability of resources; the ability to successfully implement conservation measures; changes in customer water use patterns; the impact of weather and climate on water sales and operating results; and, other risks and unforeseen events.

When considering forward-looking statements, you should keep in mind the cautionary statements included in this paragraph, as well as the annual 10-K, Quarterly 10-Q, and other reports filed from time-to-time with the Securities and Exchange Commission (SEC). The Company assumes no obligation to provide public updates of forward-looking statements.

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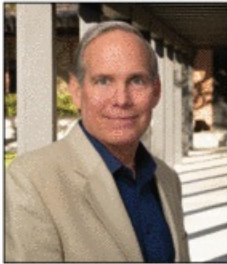




Marty Kropelnicki
President & CEO



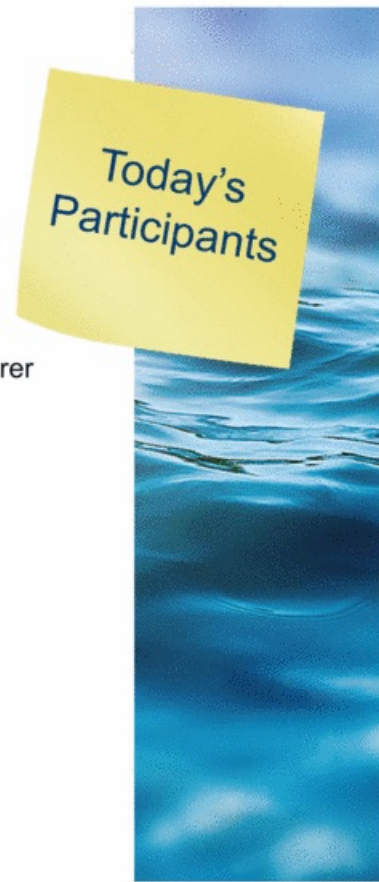
Tom Smegal
Vice President, CFO & Treasurer



Paul Townsley
Vice President, Regulatory Matters
& Corporate Development



Dave Healey
Vice President, Controller



Presentation Overview



- Our Operating Priorities
- Financial Results
- Financial Highlights
- 2016 - 2017 EPS Bridge
- Cost of Capital Update
- Tax Cuts and Jobs Act
- Outlook for 2018
- 2018 California GRC
- California Drought regulatory mechanisms
- Cap Ex 2007 Recorded to 2018 Projected
- Rate Base 2014 recorded to 2019 projected
- Summary

Our Operating Priorities



Affordable, Excellent Service

- Continuous improvement, efficient innovation
- Technology as enabler
- Centralized platform & process standardization
- Clear & effective communications



High-Quality Water & Wastewater

- Consistent sampling & rigorous monitoring
- Use of best available treatment & testing technologies



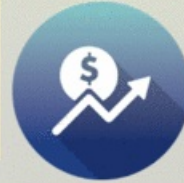
Employees as Best Advocates

- Safe workplace & healthy lifestyles
- Professional development
- Effective, transparent communication
- Teamwork



Strong Brand & Reputation

- Environmental stewardship
- Community involvement & leadership
- Water conservation leadership
- Communication & corporate governance



Enhanced Stockholder Value

- Infrastructure investment
- Growth by criteria & for long term (organic/M&A/innovative partnerships)
- Risk management
- Progressive regulatory management
- Effective investor relations



Financial Results: Full Year

(amounts are in millions, except for EPS)	2016		2017	Variance
Operating Revenue	\$609.4	▲	\$666.9	9.4%
Operating Expenses	533.2	▲	572.3	7.3%
Income from Operations	76.2	▲	94.6	24.2%
Other Income	3.0	▲	6.5	117.5%
Net Interest	30.5	▲	33.9	11.2%
Net Income	\$48.7	▲	\$67.2	38.0%
EPS	\$1.01	▲	\$1.40	38.6%



Financial Results: Fourth Quarter

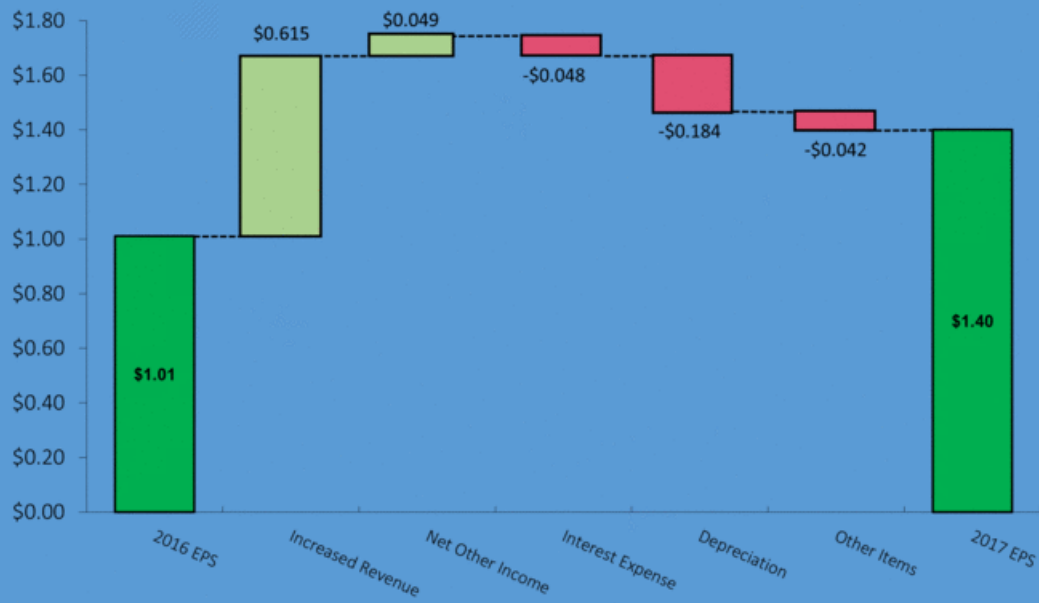
(amounts are in millions, except for EPS)	Q4 2016		Q4 2017	Variance
Operating Revenue	\$150.9	▲	\$162.0	7.3%
Operating Expenses	129.6	▲	141.9	9.5%
Income from Operations	21.3	▼	20.1	-5.7%
Other Income	1.6	▲	2.2	34.5%
Net Interest	7.8	▲	8.6	9.7%
Net Income	\$15.1	▼	\$13.7	-9.4%
EPS	\$0.31	▼	\$0.28	-9.7%





- Net income increase of \$18.5 million, largely attributable to:
 - Increased revenue from the December 2016 California General Rate Case decision
 - Increased Other Income due to recognition of Equity AFUDC
 - Elimination of drought expenses
 - Lower effective tax rate - driven by state repairs deductions for main replacements
 - Higher unbilled revenue accrual at end of year added \$2.5 million to pretax earnings
- Company and developer funded capital investments were \$259.2 million, an increase of 13.2% compared to 2016
- In December, the Company received \$56 million net proceeds from a lawsuit settlement over the contaminant TCP, which will be used to help fund treatment projects under construction

EPS Bridge 2016 to 2017



Notes on EPS Bridge Items

- Increased Revenue includes California General Rate Case and rate base offset rate relief.
- Change in unbilled revenue accrual is also included within revenue increases. The change in unbilled revenue accrual added \$4.5 million in 2017 as compared to an addition of \$2.0 million in 2016. Increased accruals in 2017 were the result of weather and other factors.
- The change in Other Income is due to Equity AFUDC, unrealized gains on certain benefit plan investments, and unregulated contracting activity.
- Increased depreciation is consistent with \$230 million additional capital investment placed into service in 2016.

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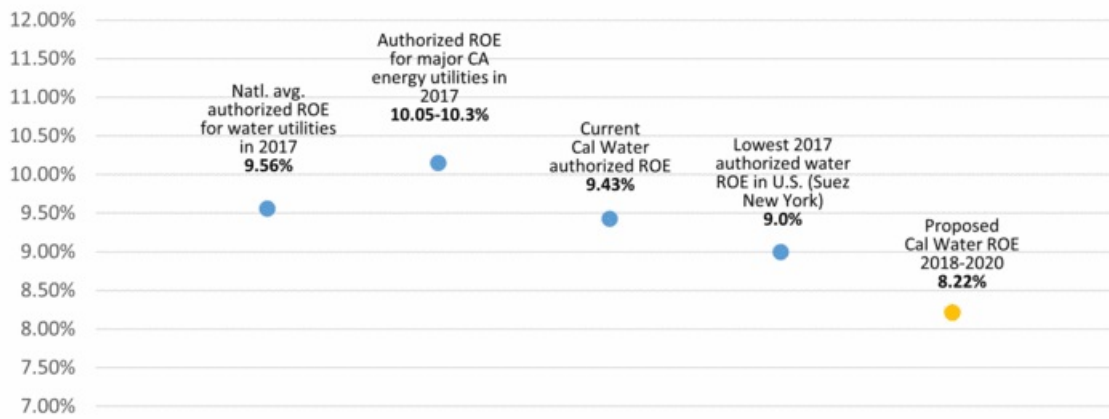


California Cost of Capital Update



- On February 6, 2018, the California Public Utilities Commission issued the assigned administrative law judge's proposed decision (PD) in the company's California cost of capital filing with three other water utilities
- The PD rejects all the positions of the utility applicants and would adopt in whole the positions of the Office of Ratepayer Advocates
- If the PD is finally adopted by the CPUC, it would reduce the allowed ROE to 8.22%, by far the lowest authorized by any state commission
 - Average of Water ROE's awarded nationwide in 2017 was 9.56%

Return on Equity Comparison



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Cost of Capital, continued

- Company management disagrees strongly with the proposed decision
- Applicant companies have filed comments and met with Commissioner advisors to point out the severe punitive nature of the PD.
 - The PD would cut Cal Water's estimated revenue by around \$13 million (range of \$0.17-\$0.19 on an after-tax EPS basis), and lower customer rates by an average of 2%
 - The PD raises questions about the CPUC's regulatory priorities going forward. The PD claims that Cal Water's WRAM, which was established to align Cal Water with the CPUC's conservation goals and Water Action Plan, and the Commission's escalation and tracker mechanisms, established to correct for the CPUC's lengthy rate case process, render the company "nearly risk free."
 - The proposed type of treatment will make it difficult for Cal Water to remain a leader in conservation and other CPUC priorities in future years.
- CPUC could first consider the PD on March 22nd, when it could approve, reject, or modify it.



Tax Cuts and Jobs Act



- All four of our regulatory commissions initiated procedures to ensure customers benefit from tax reform
- Tax expense included in rates will decline
 - Customers will likely see a 1-2% rate reduction on average monthly bills
- Utilities lose several important tax deductions including bonus depreciation and Section 199, leading to higher current year tax obligations and lower free cash flow
 - Company expects to pay cash taxes in 2020 once its prior year NOL is exhausted
- Re-measurement of deferred income taxes at 12/31/17 resulted in an excess deferred income tax liability of \$108 million
 - The amount varies by state and has been recorded as a regulatory liability or asset
 - The timing and mechanism of customer refund will be determined through the regulatory process in each state

Outlook for 2018



- 2018 capital investment range of \$200-220 million, due to front-loading in 2016-2017 of California 3-year approved budget
- Cal Water received approval for \$15.9 million escalation increase in California effective January 1, 2018
 - Depreciation expense anticipated to be \$6-7 million higher and interest cost expected to be around \$2 million higher in 2018 due to 2017 plant investments
- Through January 1, 2018, the CPUC has approved advice letter projects totaling an additional \$2.8 million annual revenue out of an authorization of up to \$30 million through 2019
- At this time, we estimate a 2018 effective tax rate of 24%, close to the statutory rate of 28% due to reduced budget for repairs-eligible projects, though this could change as the law gets interpreted
- Unbilled revenue accrual was high at year-end due to dry weather in California and the company does not anticipate a recurrence of the \$2.5 million increase in 2018.
- Beginning with the first quarter of 2018, the non-service components of pension expense will be included with "other income and expense" due to the implementation of FASB ASU 2017-07

2018 General Rate Case Filing



- California Water will file its 2018 GRC in July
 - Company anticipates requesting more capital than was awarded in the last cycle, primarily due to replacement of aging infrastructure
 - Company will begin to forecast preliminary cap ex and rate base growth for 2019 through 2022 after the rate case is filed
- Rates would change effective January 1, 2020
- Covers capital investments in 2019-2021
- Company staff has been working for more than two years to prepare and support the case
- Cal Water reviews capital needs on a nine-year (three rate case) planning horizon and anticipates increasing replacement cycle capital needs through that period

California Drought Recovery and Regulatory Mechanisms

- California continues to be decoupled, but the net receivable balance in the Water Revenue Adjustment Mechanism (WRAM) grew to \$69.1 million in 2017
- California sales increased 6.7% but were only 82% of adopted volumes
- Along with escalation filing, Cal Water received an adjustment in adopted sales volumes through the Sales Reconciliation Mechanism (SRM) of 9%
 - Cash collection should improve, reducing upward pressure on the WRAM
 - Annual amortization of prior year WRAM balances begins in the second quarter
- California is experiencing a drier-than-normal winter in 2017-2018
 - Snowpack is 20% of average and precipitation is 57% of average as of February 28
 - However, reservoir storage is above normal for the date



Net WRAM Receivable Balance

(in millions)
(End of Year balance)

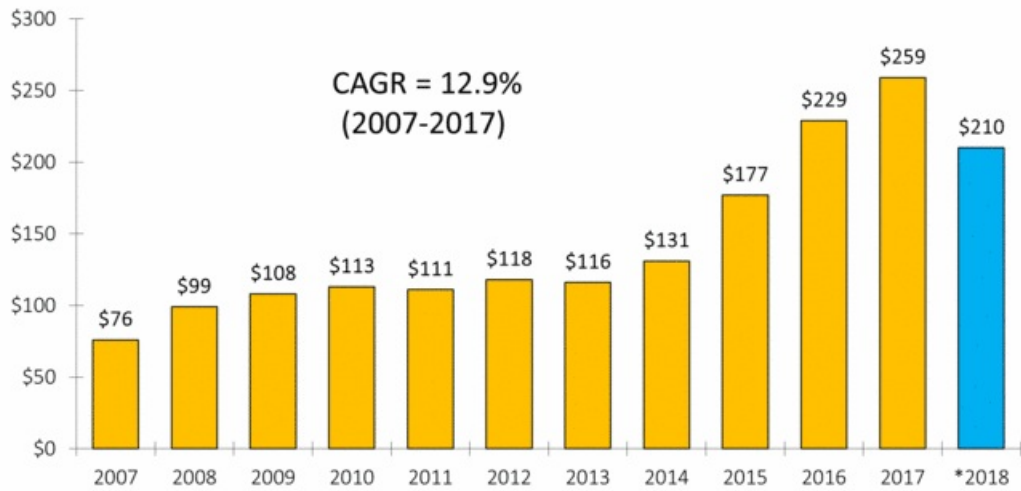


California water volumes were 82% of adopted for 2017 and 6.7% higher than 2016



Capital Investment History and Projection

(in millions)



*2018 amounts are based upon Company projections including 2015 California Rate Case decision

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Regulated Rate Base of CWT (in millions)

*Includes estimated cumulative additions in 2018 and 2019 of \$96M and \$197M for advice letters.



Summary



- 2017 was a solid year incorporating rate increases from the last California GRC decision
- Record capital spending in 2017, however, there are fewer remaining approved projects in 2018 – we expect \$200-220 million in 2018 with a GRC request for higher cap ex in 2019-2021
- Received escalation increase which after incremental depreciation and financing costs adds approximately \$7-8 million to pre-tax operating income in 2018
- Potential headwind in 2018 from PD on cost of capital in California, which would reduce revenue by approximately \$13 million and EPS by \$0.17-\$0.19 if it is adopted
- Company anticipates filing its California GRC in July, beginning an 18-month rate setting process
- Record spending on main replacements reduced tax rate in 2017; expect much closer to statutory rate in 2018 but estimate no cash taxes through 2019 as we use our prior year NOL
- Working through cash flow issues on tax reform with regulatory Commissions



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Discussion